

system, led to considerable correspondence in 1846, pending the approval of a charter passed in that year, but the government finally consented to the retention of the \$1 notes.

The mania for "free banking" on securities seized upon the Canadian people towards the middle of the century and resulted in the law of 1850, based upon New York models. William Hamilton Merritt was the author of the new law, and he first brushed away the obstacles by the repeal of the laws prohibiting the circulation of the notes of private bankers. Such note issues were permitted, provided that the banks formed for the purpose deposited Provincial securities with the Receiver-General for not less than \$100,000 as a pledge for their notes. One of the objects of this legislation,—to broaden the market for Provincial securities,—was indicated by the provision that these notes were to be exempt from the tax of one per cent, per year imposed on the circulation of the chartered banks, and that the latter might surrender their circulation against their assets, and issue notes upon deposits of securities. The notes, in case of suspension, were to be paid from the proceeds of the securities, and any balance was to be applied, with the other assets, to the settlement of the remaining debts of the bank. The notes were to constitute a preferred claim against other assets in case the proceeds of the securities proved insufficient.

The effort to drive the chartered banks into the secured note system was carried further, in 1851, by a bill granting certain exemptions from taxation to banks which were willing to restrict their circulation to the maximum shown in their last statement and to reduce it in three years to three-fourths of the average for 1849 and 1850. Such banks were permitted to issue additional notes to the amount held in gold or silver coin or bullion, or in debentures issued by the Receiver-General and reckoned at, par. They were not required to deposit the debentures, but were required in case of failure to apply them exclusively to the redemption of their notes. The fact that the banks were required to hold the debentures permanently, whether in the custody of the government or in their own vaults, resulted in withdrawing